



COUNCILMEMBER CARL DEMaIO

FIFTH DISTRICT

CITY OF SAN DIEGO

MEMORANDUM

DATE: October 21, 2009

TO: Mary Lewis, CFO

FROM: Tom Aaron, Budget and Policy Advisor - District 5

RE: Comprehensive Outlook on OPEB Liability

The post retirement medical benefit valuation (dated September 17, 2009) conducted by Buck Consultants identifies the value of the FY 2011 Other Post Employment Benefit (OPEB) ARC at \$120.3 million, and a June 30, 2009 funding ratio of 3.05% (a corresponding UAL of \$1.3 billion).

The recently released Five Year Financial Outlook identifies the planned levels of funding for the city's liabilities associated with retiree medical benefits, noting the intention to fund the pay-as-you-go (PAYGO) obligation plus a \$25 million annual contribution to the CalPERS benefit trust for the partial pre-funding of future liabilities.

While the sobering information in both the Outlook and the valuation provides valuable insight regarding this significant liability, the long-term mathematical impact of a funding strategy that currently pays approximately half of the ARC has not been clearly articulated. To provide clarity and to aid upcoming budgetary decision-making, our office requests the following additional information be provided to the City Council and the Independent Budget Analyst.

Scenario 1: The city continues to fund its OPEB liability by funding the PAYGO portion, plus \$25 million.

- 25 year forecast of annual projected values for the OPEB ARC
- 25 year forecast of annual projected values for the UAL
- 25 year forecast of annual projected values for the PAYGO amount

Scenario 2: The city begins to fully fund this liability by paying the full ARC from FY 2011 forward.

- 25 year forecast of annual projected values for the OPEB ARC
- 25 year forecast of annual projected values for the UAL
- 25 year forecast of annual projected values for the PAYGO amount, should the city decide in any of these years to deviate from the "Scenario 2" funding strategy and exercise its legal option to pay only this amount. (Providing this piece of data should provide a clearer understanding of the impact that current underfunding of the ARC has on future PAYGO values.)

Scenario 3: Our office understands that potential reform of retiree health care is being considered which may significantly reduce the size of the UAL. We request that an actuarial estimate of such an option, which clearly lays out the impact to not only the UAL, but also the expected ARC and PAYGO values over the 25 year timeline discussed above, be obtained and distributed to the Council and IBA. This will allow for a complete understanding of the potential savings through successful reform of this benefit.

Finally, please address the discrepancy highlighted in the IBA's review of the Five Year Financial Outlook regarding the assumed PAYGO amounts.

We look forward to the contribution that the requested information will have on forthcoming budget discussions as we seek to solve the city's financial problems in a structural fashion.

CC: Andrea Tevlin, Independent Budget Analyst